CA FINAL (NEW)

AUDIT SQUASH

Article 148 to 151 of the Constitution prescribes the role of C&AG

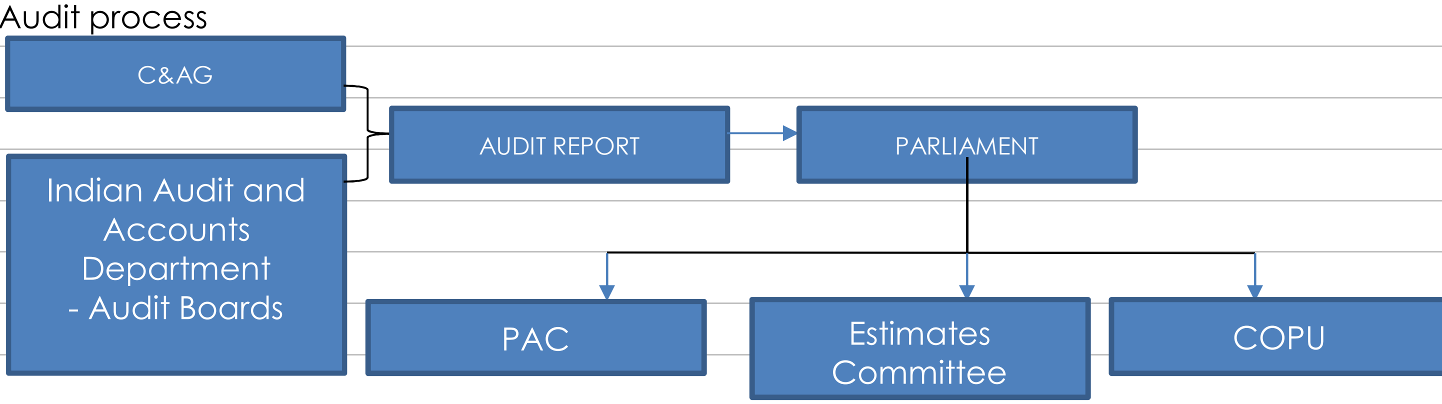
- 148 — Appointment and removal of C&AG
- 149 — P&D in relation to Accounts - C&AG act 1971 define scope
- 150 — on advice of C&AG President prescribe form in which accounts maintained
- 151 — Audit report before president/governer-laid before parliament

The number of organisations subject to the audit of the Comptroller and Auditor General

C&AG
- All the union and state govt departments
- Authorities or bodies financed by state or union

C&AG
- PSU (Govt companies)
- Non commercial autonomous bodies controlled by union or state

Audit process



Action on Audit Reports

The scrutiny of the Annual Accounts and the Audit Reports thereon by the Parliament as a whole would be an difficult task

Therefore, the Parliament and the State Legislatures have, for this purpose, constituted specialized Committees like PAC, Estimates Committee and COPU to which these audit Reports and Annual Accounts automatically stand referred

Public Accounts Committee (PAC)

It is the duty of the Public Accounts Committee to satisfy itself:

(i) that the moneys were disbursed legally on the service or purpose to which they were applied

(ii) that the expenditure incurred was authorised

(iii) that re-appropriation has been made in accordance with the provisions made (i.e. distribution of funds)

Estimates Committee

The Committee examines the estimates with a view to:

(i) report that economies, improvements in organization, efficiency, consistent with the policy underlying the estimates may be effected

(ii) suggest alternative policies

(iii) examine whether the money is well laid out within the limit

(iv) suggest the form in which the estimates shall be presented to Parliament

Committee on Public Undertakings (COPU)

(i) To examine the reports and accounts of public undertakings.

(ii) to examine the reports of the C&AG on public undertakings

(iii) to examine the autonomy and efficiency of public undertakings and to see whether they are being managed in accordance with sound business principles and prudent commercial practices

(iv) To exercise such other functions vested in the PAC and the Estimates Committee as are not covered above and as may be allotted by the Speaker from time to time.

PAC

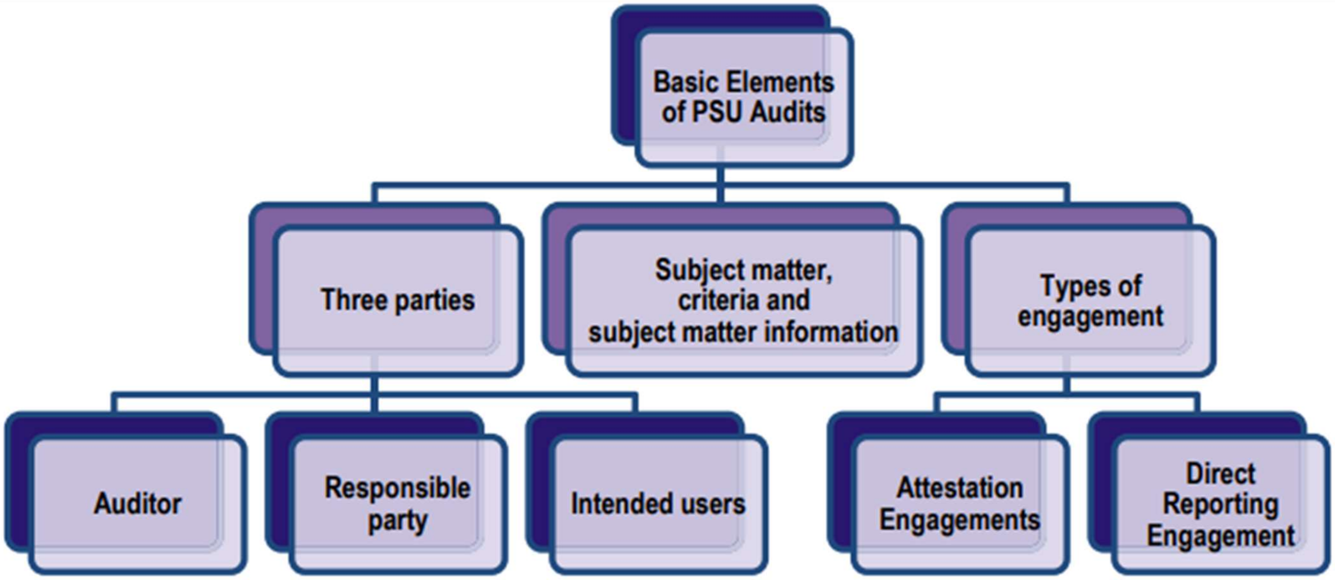
- Apportioned
- Authorised
- Disbursed (spent)

ESTIMATES

- improvement in organisation in line with policy
- Alternative policy
- within limits money laid
- Form of Estimates for presentation

COPU

- Reports &Accounts
- Reports of C&AG
- Managed-sound
- other functions



Types of engagement - Attestation Engagements and Direct Reporting Engagement.

Attestation Engagements:

In attestation engagements, the responsible party measures the subject matter against the criteria and presents the subject matter information, on which the auditor then gathers sufficient and appropriate audit evidence to provide a reasonable basis for expressing a conclusion.

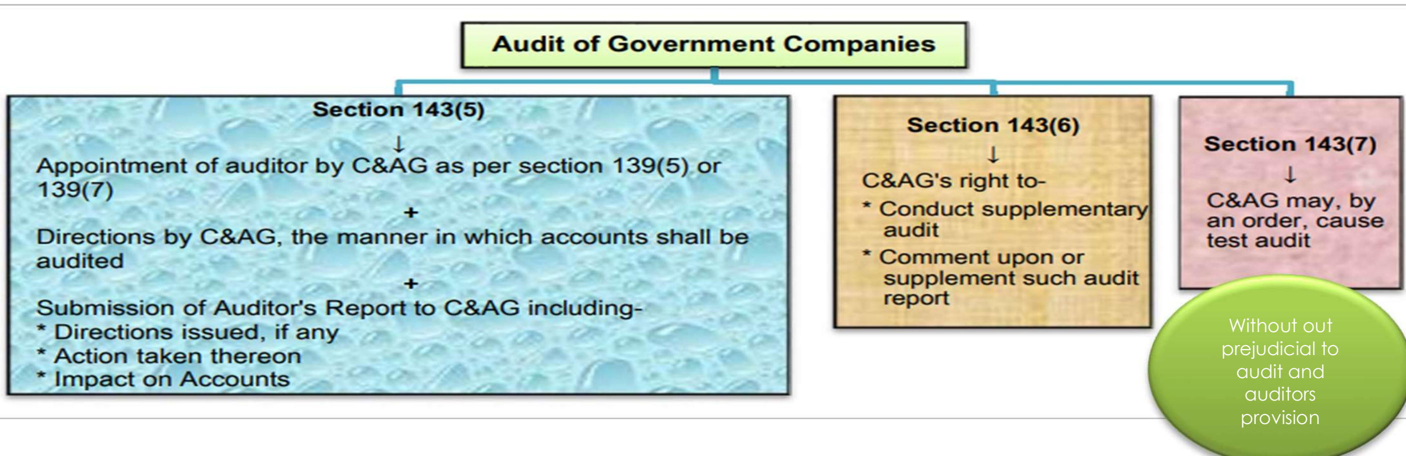
EX: Financial audits are always attestation engagements

Direct Reporting Engagement:

In direct reporting engagements, it is the auditor who measures or evaluates the subject matter against the criteria.

Performance audits and compliance audits are generally direct reporting engagements

Audit of Government companies



Types of Audit

COMPLIANCE AUDIT

Compliance audit is the independent assessment of whether a given subject matter is in compliance with the applicable criteria

Compliance audit is concerned with

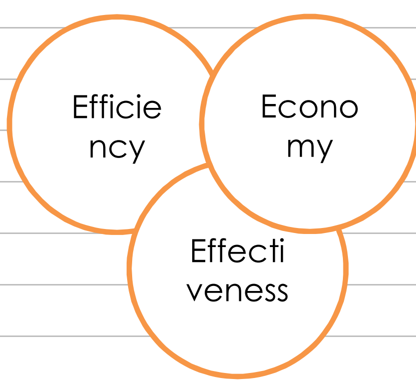
Regularity

- Adherence of subject matter to formal criteria arise from relavant laws and regulations

Propriety

- observance of principles governing SOUND FINANCIAL MANAGEMENT and ETHICAL CONDUCT OF PUBLIC OFFICIALS

PERFORMANCE AUDIT



Effectiveness

It is the extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity

Performance audit involve the following

- determine the extent to which a program achieves a desired level of program results
- assess the effectiveness of the program and/or of individual program components
- assess compliance with laws and regulations applicable to the program
- identify ways of making program work more effectively
- assess the adequacy of the management control system for measuring, monitoring and reporting a program's effectiveness
- assess whether the programme complements, duplicates, overlaps or counteracts other related programmes
- determine whether management has considered alternatives for carrying out the program that might yield desired results more effectively or at a lower cost

Efficiency

It is the input-output ratio. In the case of public spending, efficiency is achieved when the output is maximized at the minimum of inputs, or input is minimized for any given quantity and quality of output

Auditing efficiency holds aspects such as whether

- sound procurement practices are followed
- resources are properly protected and maintained
- human, financial and other resources are efficiently used
- optimum amount of resources (staff, equipment, and facilities) are used in producing or delivering the appropriate quantity and quality of goods or services in a timely manner
- efficient operating procedures are used
- The objectives of public sector programmes are met cost-effectively.

Economy

It is minimizing the cost of resources used for an activity, having regard to appropriate quantity, quality and at the best price.

COMPREHENSIVE AUDIT

Comptroller and Auditor General conducts an efficiency-cum-performance audit other than the field which has already been covered either by the internal audit of the individual Concerns or by the professional auditors

The areas covered in comprehensive audit naturally vary from enterprise to enterprise depending on the nature of the enterprise, its objectives and operations

Areas of Audit

investment decisions, project formulation, organizational effectiveness, capacity utilization, , management of equipment, plant and machinery, production performance, use of materials productivity of labour, idle capacity, costs and prices, materials management, sales and credit control, budgetary and internal control systems

Some of the issues examined in comprehensive audit are

- Overall capital cost of the project compare with the approved planned costs?
- accepted production or operational outputs been achieved
- planned rate of return been achieved
- purchase policies adequate
- enterprise has an adequate system of repairs and maintenance
- Are procedures effective and economical
- Is there any poor or insufficient or inefficient project planning

The Bureau of Public Enterprises has issued guidelines to be followed by the public sector, enterprises in respect of general management, financial management, materials Management production management, construction management, etc

These guidelines provide another basis for appraising enterprise performance and its systems

Another source of criteria is industrial engineering and other technical studies by internal and external experts and the standards given in these

The starting point of a comprehensive appraisal of a public enterprise, which covers aspects of economy, efficiency and effectiveness is preparation of audit programme

↓

These audit programmes (or guidelines) identify the areas/aspects which require further detailed audit analysis and criteria

↓

the extent of the audit analysis including the test checks to be applied and the instructions to the audit parties assigned to the work

PROPRIETY AUDIT

Propriety audit stands for verification of transactions on the tests of public interest, commonly accepted customs and standards of conduct

On an analysis, the tests boil down to tests on economy, efficiency and faithfulness.

It shifts the emphasis to the substance of transactions and looks into the appropriateness thereof on a consideration of financial prudence, public interest and prevention of wasteful expenditure.

Propriety Audit = Scrutiny of Financial statements + With special regard to public interest and commonly accepted customs and standards of conduct.

It is also seen whether every officer has exercised the same vigilance in respect of expenditure incurred from public money, as a person of ordinary prudence would exercise in respect of expenditure of his own money under similar circumstances

In 'propriety audit', the auditors try to bring out cases of improper, avoidable, or infructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations

Propriety requires the transactions, and more particularly expenditure, to conform to certain General principles. These principles are:

- The expenditure is not prima facie more than the occasion demands and that every official exercises the same degree of vigilance in respect of expenditure as a person of ordinary prudence would exercise in respect of his own money
- The authority exercises its power of sanctioning expenditure to pass an order which will not directly or indirectly accrue to its own advantage
- Funds are not utilized for the benefit of a particular person or group of persons
- Apart from the agreed remuneration or reward, no other avenue is kept open to indirectly benefit the management personnel, employees and others

AUDIT REPORT OF THE COMPTROLLER AND AUDITOR GENERAL

To facilitate a proper consideration, the reports of the C&AG on the audit of PSUs are presented to the Parliament in several parts consisting of the following:

(a) Introduction containing a general review of the working results of Government companies, deemed Government companies and corporations

(b) Results of comprehensive appraisals of selected undertakings conducted by the Audit Board

(c) Resume of the company auditors' reports submitted by them under the directions issued by the C&AG and that of comments on the accounts of the Government companies

(d) Significant results of audit of the undertakings not taken up for appraisal by the Audit Board

Note : Resume of company auditors report in point (c) means audit report is submitted because audit is conducted on order of C&AG

For certain specified states, the C&AG submits a separate audit report (commercial) to the legislature, while for other States/Union Territories with legislature, there is a commercial chapter in the main audit report

The State audit reports, contains both the results of audit appraisal of performance of selected companies/corporations as well as important individual instances of financial irregularities, wasteful expenditure, system deficiencies noticed by the statutory auditors